



DATE: February 12, 2015

TO: Members of City Council

FROM: Mayor Sylvester “Sly” James, Jr. and Troy M. Schulte, City Manager

SUBJECT: Submitted Budget for Fiscal Year 2015-16

You may recall previous years’ budget processes resulted in the City Manager’s letter detailing submitted budget expenditures and reductions followed by the Mayor’s response. This year marks the beginning of a new trend – a joint budget letter reflecting months of collaboration. As we push for streamlined processes, dismantling silos, and increased communication between departments, we know that behavior must start at the top of our organization. To that end, we are pleased to jointly deliver for your review the submitted budget for the City’s fiscal year beginning May 1, 2015.

The FY 2015-16 Submitted Budget reflects total planned expenditures of \$1.47 billion – an increase of 3.5 percent over the FY 2014-15 Adopted Budget. It contains structural changes that set the City on a path toward greater financial stability pursuant to the Citywide Business Plan. The key changes include a one-year salary freeze for all City employees, including KC police department employees; increasing the fire department operating budget to meet current service demands; and beginning a projected eight-year cycle to replace the City’s aging vehicles and equipment such as dump trucks and pickup trucks. Finally, the budget adds to the General Fund balance with a projected General Fund surplus of \$1.4 million and reserving the contingent appropriation of \$5.0 million.

Visit the Open Budget portal at budget.kcmo.gov for a new visualization tool that explains budget details with customized charts.

FY 2015-16 Governmental Activities, which exclude the Aviation and Water Services Departments, total \$950.1 million – an increase of 3.8 percent from the current year’s budget. The General Fund increases \$13.8 million, or about 2.9 percent, excluding the transfer of ambulance services into the General Fund.

This year’s budget document expands the performance management section to include objectives for each program. The document also highlights **Major Accomplishments** that feature our far-reaching successes. We are also pleased to announce that the City will unveil its online Open Budget portal in conjunction with this submittal. Anyone can access budget.kcmo.gov to obtain visual representations of the submitted budget. The Open Budget portal also allows users to drill down on multiple levels of detail by council goal, department, program, or account. Users can create and share their customized links or they can download budget data from the site.

CITYWIDE BUSINESS PLAN

The budget document incorporates for the first time the *Adopted* Citywide Business Plan and Five-Year Financial Strategic Plan. The submitted budget contains the key assumptions of the adopted plan including a citywide salary freeze in FY 2015-16, an increase in court fines revenue, fleet replacement, and stabilizing the growth of public safety relative to other governmental activities. In addition, for the second year in a row, the budget fully funds all pension obligations. There are two key updates to the five-year projection. First, the model begins with this FY 2015-16 Submitted Budget using the projected ending fund balance for the current year. And, the model reflects a large investment in the Fire Department, described in more detail below, to stabilize its operating budget for the long term.

Although the economy continues to recover, it is important to note that personnel costs remain the largest expense in the budget. The recommended one-year salary freeze is part of the five-year plan to continue to stabilize operations and minimize personnel reductions.

The budget again presents departmental budgets organized by Council Goal. Council Goal pages include the Goal Statements and Objectives along with Citizen Priorities and Key Performance Indicators.

GOVERNMENTAL ACTIVITIES

Governmental Activities – Major Changes in Revenue

FY 2015-16 revenues available for Governmental Activities total \$941.9 million and are projected to increase from the FY 2014-15 Adopted Budget by 3.1 percent. The increase in revenue is primarily attributed to the following items. Further detail can be found in the Budget Overview section.

1. Gross local use taxes increase \$2.6 million, or 7.5 percent, reflecting more capital investment by businesses.
2. Gross sales taxes increase \$11.9 million, or 5.9 percent, due to the improving economy.
3. Fines and forfeitures increase \$4.7 million, or 31.9 percent, returning the amount to normal levels.
4. Earnings taxes increase \$8.3 million, or 3.8 percent, reflecting streamlined collections and the improving economy.
5. Utility taxes increase \$3.9 million, or 4.0 percent, representing expected utility rate increases.
6. Gaming revenues *decrease* \$1.4 million, or 9.3 percent, reflecting current trends.

Revenues from sales and earnings taxes are increasing due to the improving economy.

Property taxes will continue to be nearly flat, and earnings taxes will grow steadily – bolstered by the Revenue Division's ongoing Internal Revenue Service audit match program.

Governmental Activities – Major Changes in Expenditures

Wages and Benefits account for 48 percent of expenditures and are projected to increase 2.5 percent, mostly due to health care and pension costs.

The FY 2015-16 Submitted Budget continues the efforts of recent years to achieve structural balance. Wages and Benefits within Governmental Activities Funds increase by only 2.5 percent, yet account for 48 percent of the overall budget. Health insurance premiums are projected to grow 7.5 percent from the current year.

Pension contributions stabilize with an increase of 4.5 percent to meet the pension systems' Actuarial Required Contributions (ARC). All of the pension increase is attributable to the three public safety plans: the Police Retirement System, the police Civilian Employees Retirement System, and the Firefighters Pension System. It is notable that the contribution to the City Employees' Retirement System will *decrease* by \$4.3 million (including Consolidated Funds) in the FY 2015-16 Submitted Budget because of its improved financial and market conditions. Once again, the submitted budget assumes a citywide wage freeze in FY 2015-16 resulting in an overall increase of less than one percent in wages representing the full year cost of wage increases previously granted. The wage freeze will be among the issues the City will have to address in upcoming collective bargaining agreement negotiations.

Contractual services increase 7.3 percent in the Governmental Activities Funds. The primary drivers include increases to Fire Department operations, operating support for the new revenue collection system (RevKC), building and technology improvements in Municipal Court (fully fee supported), Police Department facilities, projected streetcar operating costs (fully fee supported), increased activity in Development Services (fully fee supported), and community centers.

Debt service in governmental activities increases \$5.0 million, or 3.5 percent, primarily in special revenue funds to support new investments in fleet and equipment replacement, a one-time payment for the Blue River flood control project, and scheduled increases for Bartle Hall and KC Live debt. The FY 2015-16 Submitted Budget relies less on debt restructuring while it takes advantage of opportunities for debt savings related to general obligation debt (\$1.5 million savings) and the City tow lot. Debt service is unchanged as a percentage of the total Governmental Activities budget at 15.7 percent.

Capital improvements spending increases slightly in the FY 2015-16 Submitted Budget from \$53.5 million to \$55.3 million. The increase reflects increased spending on Parks capital maintenance from Parks sales tax resources.

Expenses continue to outpace revenues despite revenue increases from enhanced economic activity. Therefore, we have again asked departments (other than police and fire) that are funded fully or partially by the General Fund to take "sequester" actions that resulted in average budget reductions of nearly 10 percent. The FY 2015-16 Submitted Budget eliminates a total of 85 positions, 25 of which are currently filled.

Governmental Activities – Budget by Council Goal

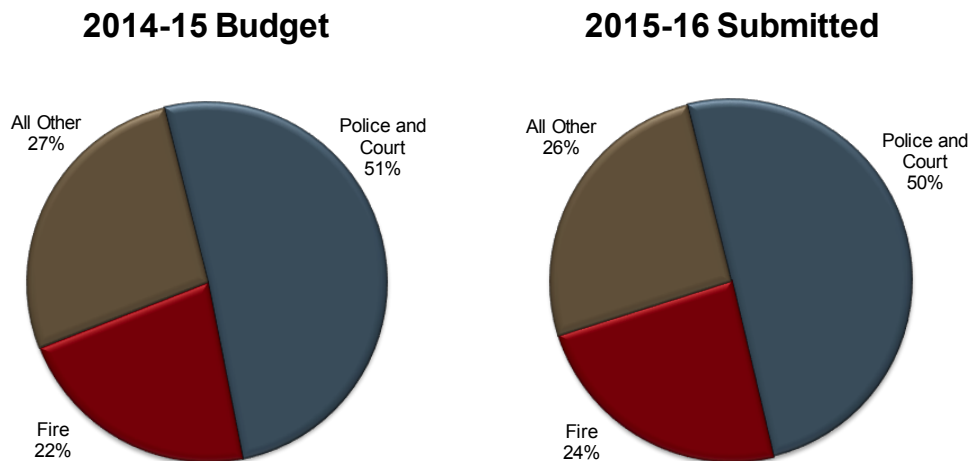
The City Council adopted five goals to drive its decision-making. The following section explains how those goals are impacted by this FY 2015-16 Submitted Budget.

Goal - Public Safety: To protect Kansas City residents, visitors, and employees by providing comprehensive, high quality public safety services, including programs to prevent or significantly reduce public safety problems and threats in a timely manner.

Public Safety remains the largest area of expense within Governmental Activities occupying 42 percent of the total, which is unchanged from last year. The Public Safety portion of the General Fund (including Police, Fire, and Municipal Court) increases from 73 to 74 percent even after discounting ambulance program revenues.

General Fund Activities Net of Ambulance/Fire Sales Tax

Operating only, excluding transfers out



Fire Department

The Fire Department budget totals \$150.9 million in the FY 2015-16 Submitted Budget. The total increase of \$10.4 million funds previous structural imbalances in Fire Department operations for equipment (\$507,000), vehicle maintenance and fuel (\$1.0 million), and overtime (\$3.0 million). In addition, fixed costs increase for workers compensation (\$1.9 million), health and life insurance (\$1.9 million) and pensions (\$2.2 million).

To help achieve this structural balance in the Fire Department, this budget also assumes \$1.1 million in overtime savings thanks in part to improved cooperation with Fire Department labor unions.

The FY 2015-16 Submitted Budget addresses the full impact of current fire department operations that includes 33 stations and 49 fire suppression units with a required minimum of four firefighters per unit. This budget also funds equipment for five additional Advanced Life Support (ALS) pumpers to further integrate advanced life support into firefighting operations and reduce response times.

Ambulance Services moves to the General Fund in the FY 2015-16 Submitted Budget. The Ambulance Services Fund is projected to end the current year with a budget basis deficit and the submitted budget estimates continuing operating deficits. Therefore, the budget transfers an additional \$2.0 million from the Health Levy to support unsubsidized medical response care. The FY 2015-16 Submitted Budget splits the ambulance operations subsidy between the General Fund and Health Levy Fund, which impacts all General Fund programs, the Health Department, and health care safety net providers.

Kansas City Police Department

The submitted budget for the Police Department totals \$231.4 million and represents 24 percent of total Governmental Activities and 42 percent of the City's General Fund. The department's total General Fund budget is \$205.1 million, an increase of 1.6 percent (\$3.3 million) from the current budget. The modest increase in the Police Department budget is consistent with the Citywide Business Plan to stabilize public safety growth relative to general government growth, yet the submitted budget provides funding to maintain the City's commitment to KC No Violence Alliance (NoVA).

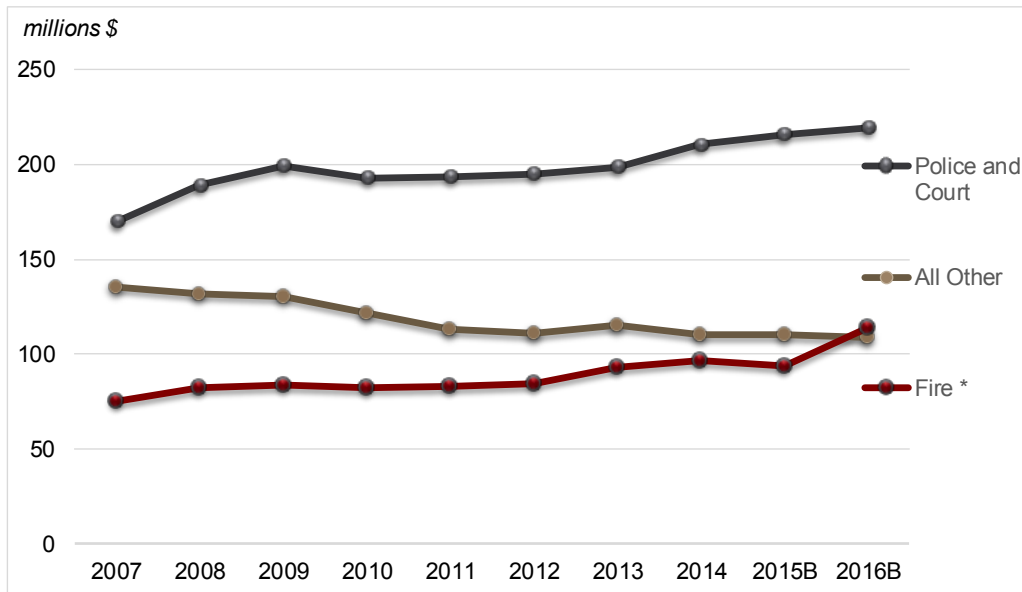
In addition, the Mayor's Office is transferring \$60,000 from its budget to Teens in Transition, the youth component of KC NoVA. This program started last summer. It removes high-risk youth from the cycle of violence and gives them intensive case management to help them lead productive, healthy lives. Teens in Transition served 20 youth for nine weeks through a wide variety of programming including job training, conflict resolution and educational support.

Wages and benefits for the Police Department total \$194.3 million, and represent close to 90 percent of the total departmental budget, not including debt service. Pension increases for the police and civilian retirement systems are scheduled to increase by \$2.7 million relative to the FY 2014-15 Adopted Budget. The budget retains \$1.0 million for fleet replacement and adds \$1.0 million in debt service to replace the Computer Aided Dispatch and Records Management System (CAD/RMS).

The Police Department submitted budget reduces civilian staffing by approximately 30 positions and it includes the closure of the Police Headquarters holding facility with the expansion of the Jackson County Regional Correctional Center. Finally, the budget includes operational costs for the new Leon M. Jordan East Patrol Campus.

Public Safety expenditures continue to increase faster than the other city functions.

General Fund Operating Expenditures



* in order to compare to prior years, 2016B does NOT include ambulance services, which were transferred from a Special Revenue Fund in the Submitted Budget

Municipal Court

The FY 2015-16 Submitted Budget increases 8.1 percent to \$16.3 million. Most of this increase, about \$1.1 million, derives from fees in special revenue funds to support specialty courts, deferred maintenance in the municipal court building, and probation services. The budget restores a full-time judge position with associated staffing and security.

Goal - Transportation and Infrastructure: To strengthen the transportation system and the City's physical infrastructure in ways that enhance connectivity among neighborhoods, business centers, and cultural/recreational destinations while maintaining the City's standing as a major American crossroads.

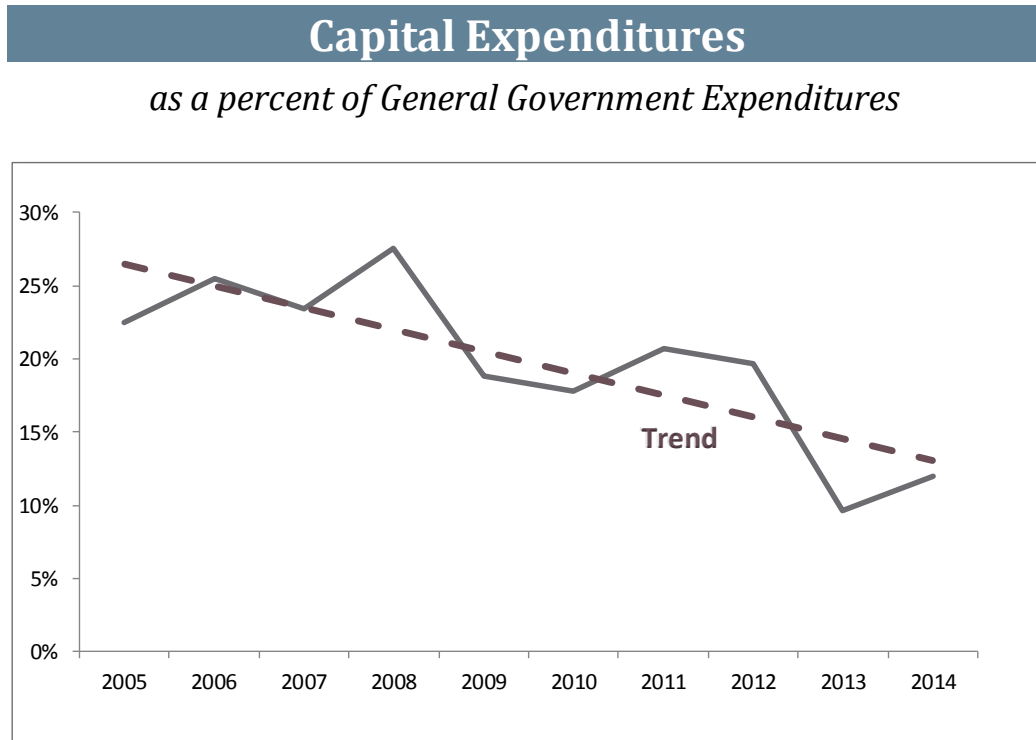
Transportation and Infrastructure represents 22 percent of Governmental Activities Funds in the FY 2015-16 Submitted Budget – a slight increase from the current year budget.

Capital Improvements Plan (CIP)

The FY 2015-16 Submitted Budget includes a total of \$55.3 million for capital improvements in Governmental Activities. A total of \$30.2 million will be provided for ongoing capital maintenance, including \$10 million for street resurfacing and \$2 million for citywide tree trimming and emerald ash borer treatment. In addition, the General Fund transfers \$15.7 million

to the Street Maintenance Fund in accordance with Ordinance No. 120458, which dedicates 7.5 percent of net earnings tax proceeds to street maintenance.

As seen in the City's annual Financial Trends Monitoring System Report (FTMS), the trend for capital investment slopes down since 2005. Capital investment as a percent of total expenditures fell sharply in 2009 and has failed to return to the previous levels of 2005 through 2008, a strong indicator that deferrals are accruing.



We believe that this trend cannot continue and during this next year we will work with the Council to develop a comprehensive strategy to address capital improvements.

Public Works

The submitted budget continues the City's commitment to alternative transportation modes by increasing the employee bus program by \$90,000 and the Bike and Pedestrian Coordination program by \$53,000. The budget proposes to raise monthly rental rates at city-owned garages by \$10 per month, which would still be below current market rates. The increase would be the first in over a decade and it would generate \$245,000 in additional revenue while incentivizing alternative transportation modes.

The FY 2015-16 Submitted Budget continues its commitment to neighborhood livability by doubling funding for the Neighborhood Cleanup program including staffing and increased dumpster availability. The submitted budget also proposes a restructuring of the Bulky Item Collection program that would maintain scheduled collections in the areas of highest demand,

while reducing scheduled collections in peripheral areas of the city where demand for the service is lighter. The Public Works Department anticipates saving over \$400,000 from the change in service.

Total street maintenance funding is largely unchanged in the submitted budget. New investments are made through a new asset management system (\$500,000), non-boulevard median maintenance (\$150,000), and fleet replacement (\$836,971 in Fleet Services).

Consistent with Ordinance No. 130796, the Kansas City Area Transportation Authority will receive 95 percent of net public mass transportation sales taxes, which is approximately \$28.3 million. Total City funding for KCATA is approximately \$53.0 million.

Goal - Neighborhoods and Healthy Communities: Support the development, maintenance, and revitalization of sustainable, stable, and healthy communities in which neighborhoods are safe, clean, well maintained, and consistently improved.

The Neighborhoods and Healthy Communities Council goal represents 14 percent of the Government Activities budget. A slight percentage decrease from the current budget is largely due to decreased federal housing grants.

Health and Medical Care Centers

The Health Levy continues to be relatively flat similar to all property tax revenue in the City. Expenditures continue to outpace incremental revenue growth resulting in program reductions. As previously mentioned, the submitted budget transfers an additional \$2.0 million from the Health Levy to support unsubsidized care for Ambulance Services.

The Health Department's share of non-fee Health Levy proceeds decreases by \$500,000. The overall Health Department budget increases by \$1.3 million in the FY 2015-16 Submitted Budget primarily due to increased grant funds. New grants for lead-based paint abatement, AIDS/HIV care, Healthy Eating and Active Living, and Aim4Peace will allow the department to expand its coverage in those areas. The budget eliminates the local Women, Infants, and Children Food (WIC) program at the Health Department to avoid duplicating services available at other providers.

Neighborhoods and Housing Services (NHS)

The Neighborhoods and Housing Services FY 2015-16 Submitted Budget decreases by \$3.3 million, mostly due to decreased grant funding. The One Year Action Plan for the federal Housing and Urban Development (HUD) grant program anticipates a reduction of \$520,000 in Community Development Block Grant (CDBG) funds from the current budget, and it reallocates \$2.1 million in the neighborhood revitalization to other areas including a \$742,000 increase in minor home repair. The federal HOME grant fund also decreases by \$536,000. Finally, the budget proposes a fee increase of \$20 in Towing Services, generating an estimated \$375,000 to fully support tow lot operations.

Parks and Recreation

The FY 2015-16 Submitted Budget for Parks and Recreation benefits from strong recent growth in sales tax collections. The budget increases community center programming activities by over \$400,000 and KC Museum adds staffing for its second year as a city-operated facility. The budget retains \$2.0 million for citywide tree trimming, allocates \$250,000 for fountain maintenance, and adds \$1 million for Parks Facilities Maintenance. Previous vehicle and equipment debt is retired in the current year and the submitted budget allocates approximately \$500,000 to begin a new cycle of ongoing equipment replacement. The total zoo subsidy, including debt service, is \$3.15 million in the submitted budget – a reduction of \$250,000.

The submitted budget increases community center activities by more than \$400,000.

Goal - Planning, Zoning, and Economic Development: Develop a vital economy where there is opportunity for growth, particularly in historically underdeveloped areas; citizens have opportunities for creating wealth and prosperity; and visitors consider Kansas City a desirable destination.

Planning, Zoning and Economic Development comprises 13 percent of Governmental Activities including development-related debt service.

City Planning and Development

The City Planning and Development (CPD) submitted budget reflects the department's reorganization based on the recent comprehensive review of CPD designed to improve customer service and operations. The total budget is largely unchanged from the current year and the department will invest increased development activity revenues in its reorganization goals.

Economic Incentives

The FY 2015-16 Submitted Budget presents a new program called Economic Incentives that consolidates the city's administrative costs associated with economic development. The \$1.8 million program includes staff from the Finance Department, City Planning and Development, and Law. The budget also includes \$1.0 million for the Economic Development Corporation and \$200,000 for the City's Kansas City Area Development Corporation membership. Finally, the budget transfers \$120,000 from the Office of the Mayor to administer the International Program.

Convention and Entertainment Facilities

The FY 2015-16 Submitted Budget for Convention and Entertainment Facilities (CEF) remains stable. Overall revenue collections increase for the hotel-motel tax and the restaurant tax. The increased revenue will stabilize department operations as well as support increased debt service for Bartle Hall, which is now \$19 million. FY 2015-16 will be the final year of debt service for Kemper Arena at \$2.3 million. The budget also contains the first of three payments of \$657,000 to repair the Bartle Hall roof. Increased revenues will also boost Visit KC funding by \$600,000 to \$8.7 million. The transfer to the Neighborhood Tourist Development Fund increases by nearly \$160,000. The convention and tourism taxes also will support event management, football support, the Big 12 conference tournaments, and festival support. The CEF budget includes

continued funding for Kemper Arena operations and the American Royal including City subsidies for those operations of approximately \$1.8 million in FY 2015-16.

Goal - Finance and Governance: Strengthen, expand, and make judicious use of Kansas City's economic resources to achieve short-term and long-term economic prosperity.

Finance and Governance, which provides financial and administrative planning and support to the City, represents nine percent of the Governmental Activities Budget.

Boards of Election Commissioners

The FY 2015-16 Submitted Budget includes \$1.1 million to support two elections in the upcoming fiscal year, including a city general election in June 2015 and a 2016 election to reauthorize the earnings tax as mandated by state law.

Office of the Mayor

The submitted budget includes a citywide position, titled Innovation Analyst, housed in the Office of the Mayor under the supervision the City's Chief Innovation Officer. Learning from our experience with the ridesharing economy, this position would evaluate city ordinances to ensure they foster a culture of innovation.

Office of the City Auditor

The FY 2015-16 Submitted Budget remains unchanged.

Office of the City Clerk

The FY 2015-16 Submitted Budget for the City Clerk includes \$30,000 for 2015 inaugural activities and savings from the elimination of a vacant position.

City Manager's Office

The City Manager's Office submitted budget includes \$300,000 in anticipated debt service for the new Smart Cities Initiative. The initiative provides access to Cisco's Smart+Connected Communities networking capabilities to test various high-tech improvements for things like parking, traffic flow, Wi-Fi, safety and communications. It will roll out along the new Kansas City streetcar route. The partnership includes a "living lab" to serve as an incubator for entrepreneurs who will tackle the City's greatest challenges: public safety, infrastructure maintenance, urban sustainability and community engagement.

The budget also continues support for the city's arts convergence programs including \$280,000 for the film commission, ArtsKC, and the Office of Culture and Creative Services.

Finance

The FY 2015-16 Submitted Budget for the Finance Department allocates \$1.6 million for ongoing software maintenance to support the RevKC program. The budget also includes

\$200,000 for priority software development. The Accounts Division includes a City Grants Coordinator position that will focus exclusively on grant administration and auditing.

Streetcar

The streetcar system will be operational in early 2016. The submitted budget includes \$4.4 million in debt service and \$2.8 million (included in the Finance Department budget) to the Streetcar Authority. Debt service on the bonds and costs of operation will be funded from property and parking assessments for properties located within Transportation Development District (TDD) plus a one-cent sales tax on taxable sales within the TDD. The City's assessments and contributions total just over \$2.1 million and will be funded from the Public Mass Transportation Fund. The streetcar line is already attracting economic development as expected, with approximately \$1 billion in projects underway or announced in the TDD since voters approved the streetcar.

Human Relations

The submitted budget for Human Relations decreases by \$250,000 due to a one-time expense last year for the disparity study related to the City's minority and women-owned business goals.

Human Resources

The Human Resources submitted budget includes funding for field safety training for city employees.

Law Department

The Law Department budget reduces three vacant positions.

General Services

The FY 2015-16 Submitted Budget for General Services decreases by \$1.5 million due to retired debt service for City Market Improvements and information technology improvements. The budget includes \$1.6 million to begin fleet and equipment replacement in Public Works and the Fire Department. This marks the first of a planned eight-year, ongoing cycle to completely replace the city's aging fleet. The Facilities Management budget includes operational costs for the new Leon M. Jordan East Patrol Campus, and funding for the American Jazz Museum is reduced by \$125,000.

BUSINESS TYPE ACTIVITIES

Also known as "enterprise funds," these two departments are fully supported by their own fees and charges and receive no general tax support.

Aviation Department

The submitted budget for the Aviation Department for FY 2015-16 increases \$4.5 million, or 2.9 percent, primarily for increased runway and snow removal equipment. Capital expenditures for the Aviation Department are projected at \$35 million, including \$20 million in runway rehabilitation and several building and mechanical upgrades.

Water Services Department

The FY 2015-16 Submitted Budget for Water Services anticipates a three percent increase in water rates and a 13 percent increase in wastewater rates to meet capital needs, service delivery, system reliability and efficiency. This is the first year of inflation-only adjustments to water rates after several years of double-digit increases to meet deferred maintenance goals. This is also the first year of a reduced increase in wastewater rates from the previous five years of 15 percent annual increases.

A 3 percent increase in water rates and a 13 percent increase in wastewater rates will address aging infrastructure and improve system reliability and service delivery.

The overall submitted budget including water, wastewater and storm-water utilities increases three percent to \$362.3 million. The majority of the increase covers contractual services for line repair and capital outlay for equipment replacement and treatment facilities. Capital improvement funding supports renewal and replacement at approximately \$19 million as outlined in the Water Department's five-year Capital Improvements Plan. This funding also meets requirements mandated by the federal government's Overflow Control Consent Decree. Water revenue bond debt service is anticipated to be \$35.4 million and sewer bond debt service is budgeted at \$33.8 million.

CONSOLIDATED FUNDS

The FY 2015-16 Submitted Budget includes a distinct Consolidated Funds section. Consolidated Funds are considered off budget and support activities among multiple departments. The costs are reflected in the various departmental budgets, and those expenditures are consolidated in one location for accounting and comparison purposes.

Health Care and Wellness Fund

The Health Care and Wellness Fund includes the Healthcare Trust Fund and the City Wellness program. The submitted budget assumes a 7.5 percent increase to insurance premiums. The budget also consolidates several wellness programs under the Wellness Coordinator.

Information Technology

The submitted budget invests \$577,000 for debt service to continue the city's transition to Voice Over Internet Protocol (VOIP) telephone service. VOIP offers large savings over traditional service, and the return on investment will be under three years.

Risk Management

The Risk Management budget includes an increase of \$1.3 million to reflect recent increases in claims activity. The city is "self-insured," and must reimburse its Consolidated Funds for claim activity from departmental budgets.

Workers Compensation

Workers Compensation payments increase nearly \$4.6 million from the current budget. Workers Compensation claims continue to increase at double-digit rates. The submitted budget uses an actuarial methodology to calculate total program liability. The Finance, General Services, and Law Departments currently are engaged with multiple departments to reduce claims activity, increase education efforts, and implement preventative measures to reduce accidents.

Important Dates for the FY 2015-16 Budget Deliberations

For your review, the following dates are provided as key milestones in the process of deliberating and adopting the annual budget of the City under the revised charter requirements adopted last April.

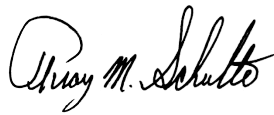
Budget delivered to Council	February 12
Submitted Budget Presentation – Business Session	February 19
First Neighborhood Hearing	February 21
Second Neighborhood Hearing	February 28
Departmental Director hearings	February 26 and March 5
Introduction of the Budget Ordinance	February 26
Public Hearing – Finance, Governance and Ethics Committee	March 4
Finance, Governance, and Ethics Committee consideration of the Budget	March 4, 18 and 25
Business Session on the Budget	March 26
City Council adoption of the Budget Ordinance	March 26

This submitted budget implements the first stages of the Citywide Business Plan while proposing several structural remedies to address Council and citizen priorities in the long run. We must continue to address structural deficiencies, restoration of the Council's fund balance goal, and sustained focus on basic services. We look forward to working with you as you review the submitted budget and addressing any questions you may have regarding the information.

Respectfully submitted,



Sylvester "Sly" James, Jr
Mayor



Troy M. Schulte
City Manager